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CENTRAL INTELLIGENCE AGENCY  
OFFICE OF CURRENT INTELLIGENCE  
23 November 1954

TO: Deputy Director (Intelligence)

SUBJECT: Present Status of the European Satellite Economies

Summary

The Eastern European Satellites have generally failed so far to fulfill the goals of their new economic course which began in mid-1953. This program, which called for sharp increases in the output of agricultural and consumer goods, was designed to correct the imbalances in Satellite economies caused by their rapid industrialization program in the post-war period.

Unfavorable weather during late 1953 and most of 1954 together with a continued shortage of agricultural equipment and fertilizers, held agricultural production down. In addition, the Satellites, with the exception of Poland, have generally failed to reach their industrial targets, although the new course has called for much smaller increases in industrial production than had been achieved previously. While all of the Satellites have claimed substantial progress in expanding the output of manufactured consumer goods, these increases were not sufficient to offset the failures of heavy industry, particularly the critical fuel and power sectors.

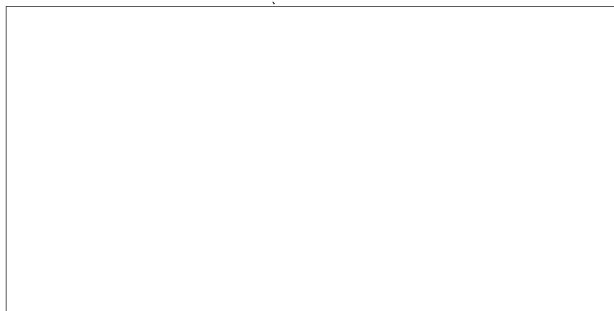
The Satellites are planning to continue the policies of the new course for several years, and should be able to make better progress in the future than they have during the past year, for the period of transition will be over and the increased supplies of consumer goods should result in increased labor productivity.

Background

The new economic policies announced by the Eastern European Satellite governments beginning in mid-1953 have generally failed so far in their attempt to correct the imbalances in their economies. While the Satellites made great strides in expanding industrial production during the post-war period, these gains were made by neglecting agricultural and consumer goods production, which resulted in such serious disproportions in their economies that the Satellites found

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it necessary to shift the focus of their plans in mid-1953. A brief review of the economic developments in Eastern Europe during the last few years provides perspective for considering some of their present difficulties and speculating on probable future developments.

During the years 1947 to 1949 all of the Satellites began operating their economies under annual plans, and the general aim of these plans was to raise production levels and standards of living to approximately prewar levels. Most countries easily met their plan goals, with production of industrial equipment rising much more rapidly than production of consumers' goods or agricultural products.

Between 1949 and 1951 all of the Satellites adopted extremely ambitious long-term plans which called for large investments in industry--chiefly heavy industry--in order to increase industrial production by amounts ranging from over one half in Czechoslovakia to nearly one and one-half times in Rumania. The regimes intended to achieve these goals by directing the surplus rural population to the cities to work in industry, and, through concentrating investments in agricultural equipment and fertilizers on the collective farms which were to be organized, agricultural production was to increase moderately in spite of the loss of manpower to the cities.

During the first year or two of the long-term plans the Satellites generally met their targets with impressive gains in industrial growth. Industrial production in the Satellites, excluding Albania, was estimated to be nearly double the prewar level during 1950, and to have increased by an additional 18 percent in 1951. Because of these achievements, the regimes by early 1952 had revised their industrial production goals upwards, and heavy industry was to receive even greater emphasis than previously.

Shortly after these upward revisions, the Satellites began to encounter serious difficulties. Peasant opposition to collectivization and high delivery norms and worker resentment over the lack of consumers' goods, coupled with lagging investment programs in industry and agriculture, limited production gains. At the same time, trade restrictions applied by Western countries, as well as the growing volume of industrial equipment being exported to China, added burdens that were unforeseen when the long-term plans were formulated. The final blow was the drought during the 1952 growing season, which hit the Balkans and Hungary particularly hard, and

resulted in severe food shortages in a number of Satellites. These shortages, together with the previously mentioned difficulties, resulted in widespread worker and peasant disaffection and in sharp declines in the rates of industrial growth beginning early in 1953.

#### Development of the New Course

Just at this time Stalin died, and the men who took control in the Soviet Union decided to deal with the disaffection in the Satellites and the apathy in the USSR by a new approach, which has become known as the new economic course. Basically this policy called for the Satellites to shift the emphasis from the rapid expansion of heavy industry to a more moderate and balanced development of their whole economies, with increased emphasis on agriculture and consumers' goods production. Within heavy industry, the fuel, power, and extractive sectors were to be favored, since industrial development was outrunning its power and raw material base. Satellite leaders, recognizing that the shift in resources would have little immediate effect on agricultural and consumers' goods production, tried to stimulate the workers and peasants to increase their efforts by shifting from a policy of coercion to a greater reliance on incentives. They hoped that cutting prices and raising wages would result in a jump in production which would enable the people to buy more goods with their increased incomes, and thus make it possible to meet the initial goals of the new program.

The decrees issued during the summer spelling out the new course in detail were applied to agriculture first, partly because it had been so badly neglected, but also because the harvesting and crop collection seasons were approaching, and it was essential that food supplies show some improvement over the inadequate 1952 levels. Renewed pledges were made that collectivization was purely voluntary, and that peasants could leave at the end of the harvest season. Past debts were cancelled in many cases, delivery quotas were reduced, and far more credits were promised to enable peasants to expand production. However, this new program failed to have any immediately beneficial effect on agriculture, for the 1953 crops were only slightly above 1952 levels and thus inadequate to meet Satellite requirements. Peasants in Hungary, and to a lesser extent in Czechoslovakia, left the collectives in the midst of the harvest season, and near-chaos resulted for a time. In addition, the concessions granted the peasants resulted chiefly in expectations of

future concessions, rather than increased production and delivery efforts.

During late 1953 and the early winter of 1954 the concessions began to be directed to the entire populations, with consumers' goods price cuts decreed in all the countries but Rumania, and with selective tax cuts and greater emphasis on urban housing appearing in several Satellites. Not until the 1953 annual plan fulfillment reports were published early this year, however, was it possible to form even a preliminary judgment of progress under the new course. East Germany and Poland claimed they fulfilled their 1953 industrial plans, but Czechoslovakia admitted a small underfulfillment. Hungary and Rumania were able to claim fulfillment only because of downward revisions in their targets late in 1953. Most of the plan reports also claimed that some progress was made late in 1953 in increasing the retail trade turnover, although sketchy evidence suggests that the accomplishments were small.

When the 1954 plans and budgets were outlined early this year, they gave us a better idea of the magnitude of the effort that would be made to shift resources to the fuel and power, agricultural, and consumers' goods sectors. In order to make available the necessary resources, further declines in the rates of industrial growth were scheduled, as shown on the chart, at the end of the text, and military appropriations, after steady, substantial increases for several years, generally were scheduled to level off or decline during 1954.

### Agriculture

While it was not expected that much progress would be made in implementing the new course late in 1953, the results thus far in 1954 indicate a general failure throughout the area, with the possible exception of Poland. Agricultural output during 1954 was probably below the unsatisfactory level of 1953, due to a combination of poor weather and poor organization. Fall sowing plans in 1953 were underfulfilled in all of the Satellites, with Albania, which achieved less than 95 percent of its goal, having the best record. A drought throughout the area during last fall's plowing and sowing season, followed by long periods of low temperatures, retarded the growth of grains, and lack of adequate snow cover during December exposed the grain to killing frosts. Cold and rain delayed the planting of spring grains, thus delaying the planting of potatoes, sugar beets, and vegetables.

In addition, poor organization and a lack of agricultural machinery and fertilizers--deficiencies which the new course has so far done little to correct--increased peasant apathy. The continued lack of consumers' goods in spite of the promises of the regimes further irritated the peasants, and thus an inadequate labor force was obliged to increase its efforts to reseed fields in the spring and at the same time meet the expanded spring targets within a shortened plowing and sowing season. When the time arrived to harvest their grain crops, they were hampered by rains and floods. The result was that 1954 crops were probably below those of 1953, thus inadequate for Satellite needs.

### Industrial Production

In addition to their agricultural failures, the Satellites have generally failed to fulfill their industrial production plans. Albania admitted underfulfillment of its plan for the first nine months of 1954, and Bulgaria, having failed to fulfill its plan during the first six months, cut its goals during the third quarter. Rumania claimed that it met its targets during the first six months, but made no announcement of the percentage increase in industrial production over 1953. This omission, combined with an absolute decline in production late in 1953, makes it unlikely that Rumanian industrial production is above the level reached in mid-1953. Czechoslovakia, Hungary, and East Germany all have failed to reach their original 1954 targets, and have therefore reduced further their goals for 1954. Poland, which reported 102.8 percent fulfillment--with a growth rate of about 14 percent--during the first half of the year, appeared to be progressing satisfactorily, but the omission of a third quarter plan report and unusually sharp criticisms of several ministries indicates that even Poland may be in some difficulty. In addition, the Satellite drive to increase trade with non-Orbit countries has made little progress, with trade during 1954 only slightly above the 1953 level.

Despite these shortcomings, all the Satellites have announced that substantial progress has been made in expanding production and distribution of consumers' goods, with gains ranging from 15 to 20 percent over 1953 levels. These gains were not sufficient, however, to offset the shortfalls of heavy industry. Most of the Satellites failed to reach coal or electric power production goals, and several Satellites failed to reach either goal.

### Causes of Satellites Failures

The chief causes of these industrial failures appear to be the failure of the regimes to establish well-laid plans before beginning their programs, and the lack of success in eliminating worker apathy. Concerning the latter, government leaders continually complain about the poor quality of workmanship, chronic absenteeism, and failure to reduce production costs as scheduled. The new incentives program has so far been unable to correct these weaknesses, for the people are wary of Communist promises, and are waiting to see the promised flood of consumers' goods before exerting themselves. The leaders themselves are to blame for their failure to formulate detailed plans before proclaiming new goals publicly, however, and they vastly overestimated their ability to shift the focus of their economies in so short a time. They also failed to prepare the Communist parties for the ideological shifts that the new course represented, and thus many party officials, as well as officials in the formerly favored heavy industrial ministries, dragged their feet in carrying out their tasks under the new program. As a result events were continually overtaking the regimes, forcing them to alter their plans as they went along, placing an almost intolerable burden on their planning staffs.

### Country by Country Survey

Perhaps, after this generalizing about the area as a whole, it would be useful to look at the situation in each of the European Satellites.

-East Germany, although no longer obliged to pay the USSR nearly 10 percent of its industrial output as reparations, has been forced to cut its industrial goals in the middle of the year. Even after these cuts, coal production and the installation of new electric power stations are lagging, and the railroad system has continued to deteriorate.

-Poland seemed to be making steady progress, but the lack of a third-quarter plan report is suspicious, and the failure of Polish coal production to meet its targets has upset the foreign trade plan, since coal is a major Polish export.

-Czechoslovakia has been forced to reduce its industrial goals again in mid-year, and industry is now virtually stagnating, with critical fuel and power shortages continuing.

-Hungary is in the worst situation of any Satellite, with industry stagnating and light industrial production rising only at the cost of about a 6-percent decline in the output of heavy industry. Even after plan goals were reduced, coal and steel production were lagging, and unemployment, theoretically impossible in a socialist society, has reached 200,000 because the regime failed to prepare an adequate plan to absorb the white collar workers dismissed from the ministries and industry. An official spokesman has admitted that productivity is down, production costs are up, wages have been increased, and prices reduced and that there is a real danger of inflation, which has been averted thus far only by living off inventories, an admittedly temporary expedient.

-Rumania has apparently made little if any progress, and that fact that it has experienced an absolute decline in industrial production has already been mentioned. However, less information is available on Rumania than on the other countries.

-Bulgaria and Albania have made some progress in increasing the availability of consumers' goods, but since their standards of living are already so low it will be many years before they can hope to satisfy their people.

### Problems and Solutions

The solutions the Satellites have come up with to solve these problems are not particularly spectacular, although this may be a virtue after the failure of some of their grandiose plans. They consist chiefly of extending the duration of the new course for several more years, and attempting to promote greater integration of Orbit economies, although this latter policy is obviously guided by the USSR. Concerning integration, they have recently utilized a multilateral clearing arrangement, to provide greater flexibility than is possible under their normal bilateral clearing procedure. Whereas under a bilateral clearing system



each country must balance its trade with every other country, under a multilateral system a country need only balance its trade with all the other countries taken as a unit. In the past the Orbit countries have relied on world market prices but they apparently now have formulated a documented price list for use in Orbit trade, and although the extent of the application of this list is unknown, it will enable them to begin to make their economic plans without being affected by price fluctuations beyond their control. They are planning to co-ordinate branches of certain industries during the 1956-60 five-year-plan period to avoid duplication of effort, and are also attempting to adopt common technical standards in an effort to increase the interchangeability of their equipment and particularly of their spare parts.

Present Satellite plans also call for extending the duration of the new course beyond 1955, and in some cases through the entire 1955-60 five-year-plan period. East Germany and Hungary have both stated that during these years their most important goals will be to increase agricultural and consumers' goods production, and overcome fuel and power shortages. Czechoslovakia has announced an agricultural plan which will require that practically all of the increase in the Czech labor force between now and 1957 be directed to the farms. While the other Satellites have not yet announced their long-term plans, it seems likely that when they do the plans will resemble those of East Germany and Hungary.

### Outlook

As to the future, the Satellites will experience continued industrial growth, although it will hardly compare with their past performances during their initial stages of industrialization. It is doubtful that they will eliminate worker and peasant apathy to any significant extent, although they should achieve steady but far from spectacular increases in the availability and eventually in the quality of consumers' goods. Their difficulties in agriculture will continue, and it seems doubtful that agricultural production will rise as fast as their populations are growing--about 2 percent a year, so they will continue to be net food importers rather than net food exporters as they were in the past.

The situation is not hopeless, however, for the people are not faced with starvation or, in most cases, with extreme privation. They have established enough of an industrial base in the area so that they can now afford to devote more effort to producing consumers' goods and agricultural equipment, and although this should eventually have an effect their performance thus far under the new course indicates that their advances will come slow and hard.

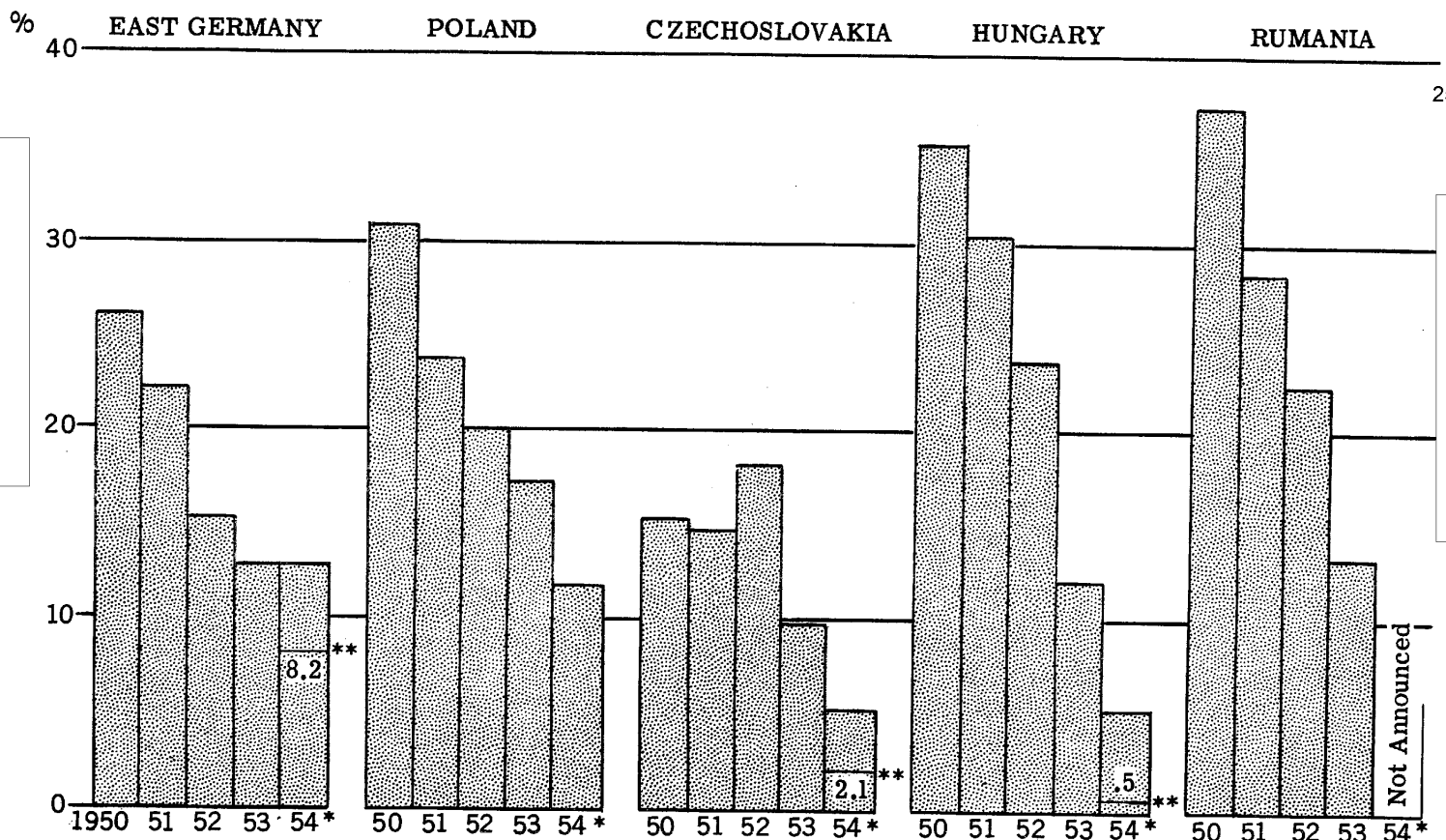
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NOTE: This memorandum has been coordinated with ORR.

# ANNOUNCED RATES OF SATELLITE INDUSTRIAL GROWTH

## PERCENT OF INCREASE OVER PREVIOUS YEAR



\* 1954 Plan    \*\* Revised 1954 Plan

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